CINCH ENERGY CORP.

2004 ANNUAL REPORT

what we're about...

Cinch Energy Corp.'s mission is to grow both production and reserves on a capital efficient basis through exploration/development and strategic acquisitions. Management's goal is to maximize shareholder value, enhancing both the net asset value and cash flows of the Company, while continuing to be a responsible and upstanding corporate citizen.

annual general meeting

Thursday, May 12, 2005 at 2:00 P.M.

The Westin Calgary
320 - 4th Avenue SW, Calgary, AB
Nakiska Room

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abbreviations

ARTC	Alberta Royalty Tax Credit
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrel of oil equivalent*
boe/d	barrel of oil equivalent per day
bopd	barrels of oil per day
btu	British thermal unit
bw/d	barrels of water per day
Cdn	Canadian
established	total proved plus 50% of probable
GJ	gigajoule
GJs/d	gigajoules per day
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmboe	millions of barrels of oil equivalent
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
NGLs	natural gas liquids

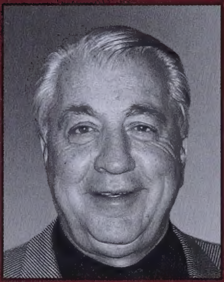
* Natural gas reserves and volumes contained herein are converted to barrels of oil equivalent (boe) on the basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. The term "barrels of oil equivalent" may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	**2004**	2003
Oil and gas sales, net of transportation *($000's)*	**4,033**	274	**8,215**	1,912
Sales volumes per day				
Natural gas (mcf/d)	**4,953**	464	**2,707**	697
Natural gas liquids (bbl/d)	**155**	8	**73**	8
Equivalence at 6:1 (boe/d)	**981**	85	**525**	124
Production exit rate (boe/d)	**1,500**	175	**1,500**	175
Sales Price				
Natural gas ($/mcf)	**7.29**	5.83	**6.97**	7.11
Natural gas liquids ($/bbl)	**49.66**	35.74	**48.68**	36.98
Equivalence at 6:1 ($/boe)	**44.70**	35.03	**42.79**	42.32
Cash flow from operations *($000's)*	**1,924**	(2)	**3,757**	793
- per share, basic	**0.06**	(0.00)	**0.19**	0.09
- per share, diluted	**0.05**	(0.00)	**0.17**	0.09
Net income (loss) *($000's)*	**189**	(4,197)	**99**	(4,173)
- per share, basic	**0.01**	(0.40)	**0.00**	(0.49)
- per share, diluted	**0.01**	(0.40)	**0.00**	(0.49)
Capital expenditures *($000's)*	**11,163**	3,395	**16,049**	11,128
Acquisition	**79**	–	**48,704**	–
Working capital (net debt) *($000's)*			**(14,759)**	2,526
Weighted average shares outstanding			**20,054,494**	8,495,673

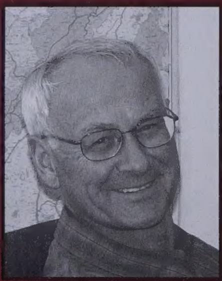
	As at February 28, 2005
Common Shares and Special Warrants outstanding	**33,323,916**
Dilutives	
- brokers' warrants outstanding	**236,440**
- average exercise price	**$1.00**
- options outstanding	**1,536,334**
- average exercise price	**$1.91**
- warrants outstanding	**8,682,452**
- exercise price	**$2.375**

[1] Cash flow from operations is not a GAAP measure and represents net income before depletion, depreciation, non-cash compensation, future taxes and any other non-cash expenses related to the Company's operations.

REPORT TO SHAREHOLDERS



John W. Elick
CEO



George Ongyerth
President

In 2004, Cinch Energy Corp. ("Cinch" or the "Company") made significant strides in expanding its core acreage position in the Deep Basin. Initially, your Company earned its land position through the drill bit in 2003, however in 2004 Cinch was able to execute on its business plan by completing a complementary acquisition in its core area. Cinch was successful in the bid for Rio Alto Resources International Inc.'s Canadian assets, of which the majority offset the Chime acreage. Your management strongly believes that the main criteria with any acquisition is that it must provide for significant future growth to the Company. We believe this acquisition has provided significant impetus to Cinch's future growth.

During the last 18 months, land prices in the Deep Basin have escalated approximately five fold, positioning Cinch's land position and that of the acquisition in one of the hottest areas of Alberta. We believe that industry has recognized the exploration potential of the greater Chime area, and that on-trend exploration successes in the Deep Basin has caused industry to aggressively pursue all available lands.

To date, Cinch has focused its exploration drilling on the Cretaceous sand package which in the Deep Basin and in our core area contains approximately seven prospective gas bearing horizons. The multizone characteristics and lack of formation water in the system enhances the Deep Basin exploration potential and also reduces risks.

2004 Accomplishments

- Completed acquisition of Rio Alto Resources International Inc. Canadian assets ("Rio Alto")
- Raised equity for gross proceeds of $42.5 million
- Successfully listed the Company's common shares and warrants on the Toronto Stock Exchange
- Increased average annual production from 124 boe/d to 525 boe/d
- Successfully completed six out of seven cased potential gas wells
- Proven and probable reserves added in 2004 replaced 2003 fourth quarter annualized production by 9.3 times
- Completed 3-D seismic program over East Chime acreage
- Net undeveloped acreage increased from 22,640 acres to 44,616 acres

OUTLOOK FOR 2005

Going forward, we do not see dramatic alterations to our business plan. Cinch will continue to grow through the drill bit and will continue to pursue exploration opportunities with which your management is familiar. Your management will also pursue and evaluate new acquisition opportunities which provide growth or balance to our present exploration program. Our focus will remain on natural gas exploration in the Deep Basin, however should we have the opportunity to get involved in an oil project, we would give that serious consideration.

Cinch believes that both oil and natural gas commodity prices will remain fairly robust in the future. Our challenge in the Deep Basin is to reduce drilling and completion costs along with service costs in a very buoyant environment. Services in most areas are in short supply, making the timing of completions and on stream dates difficult to predict.

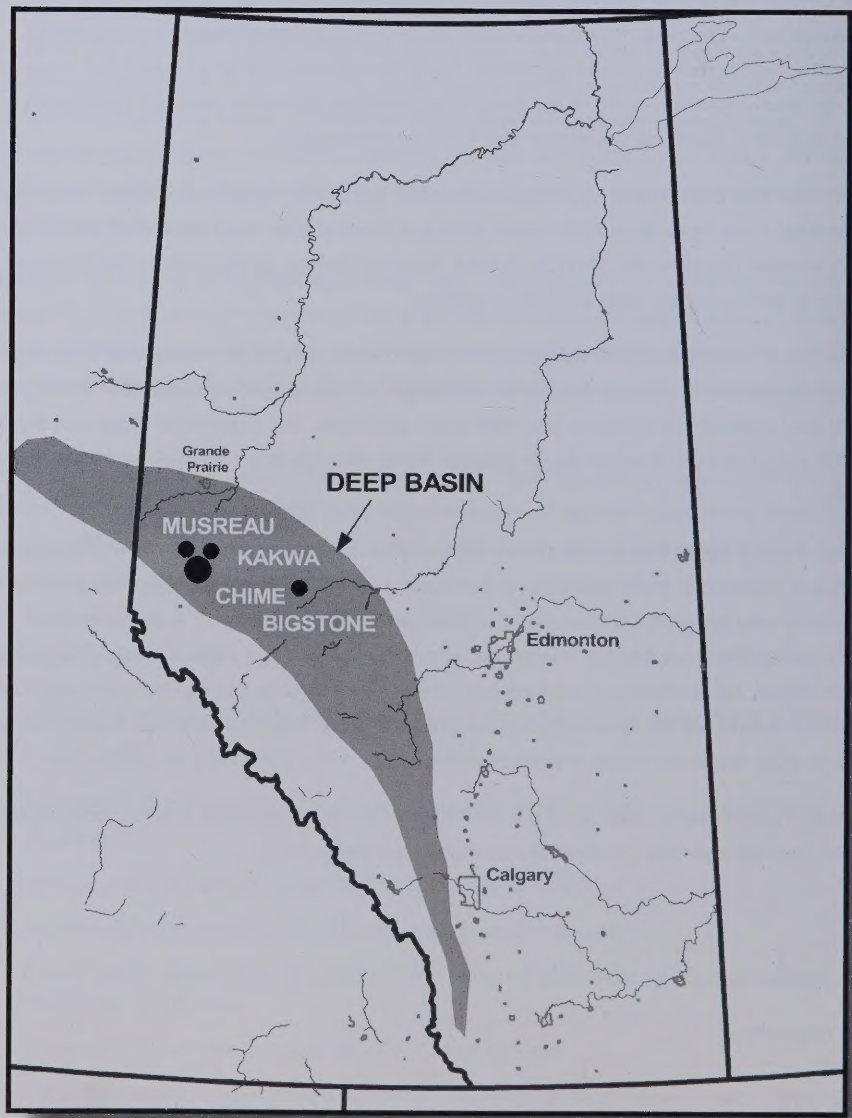
For 2005, Cinch has set its capital budget at $17 million which may be increased with the exercise of outstanding warrants. A major portion of this budget will be spent on development drilling in the Kakwa H pool in which the Company has 100% working interest. The exercise of these warrants in June 2005 would add $20.5 million to our balance sheet, allowing your Company increased financial flexibility.

In closing, I would like to express my sincere appreciation to our employees for their efforts and to our Board members in their guidance. In particular, I would like to acknowledge the efforts of Bill Bonner who resigned from our Board of Directors to meet compliance with professional portfolio management regulations. In addition, with Cinch becoming a public company, our Chief Financial Officer, Denise Ramage, resigned from our Board of Directors to facilitate the additions of independent individuals Bill Robertson, Sid Dykstra, and Gerry Deyell, who all add experience and strength in their respective fields of expertise.

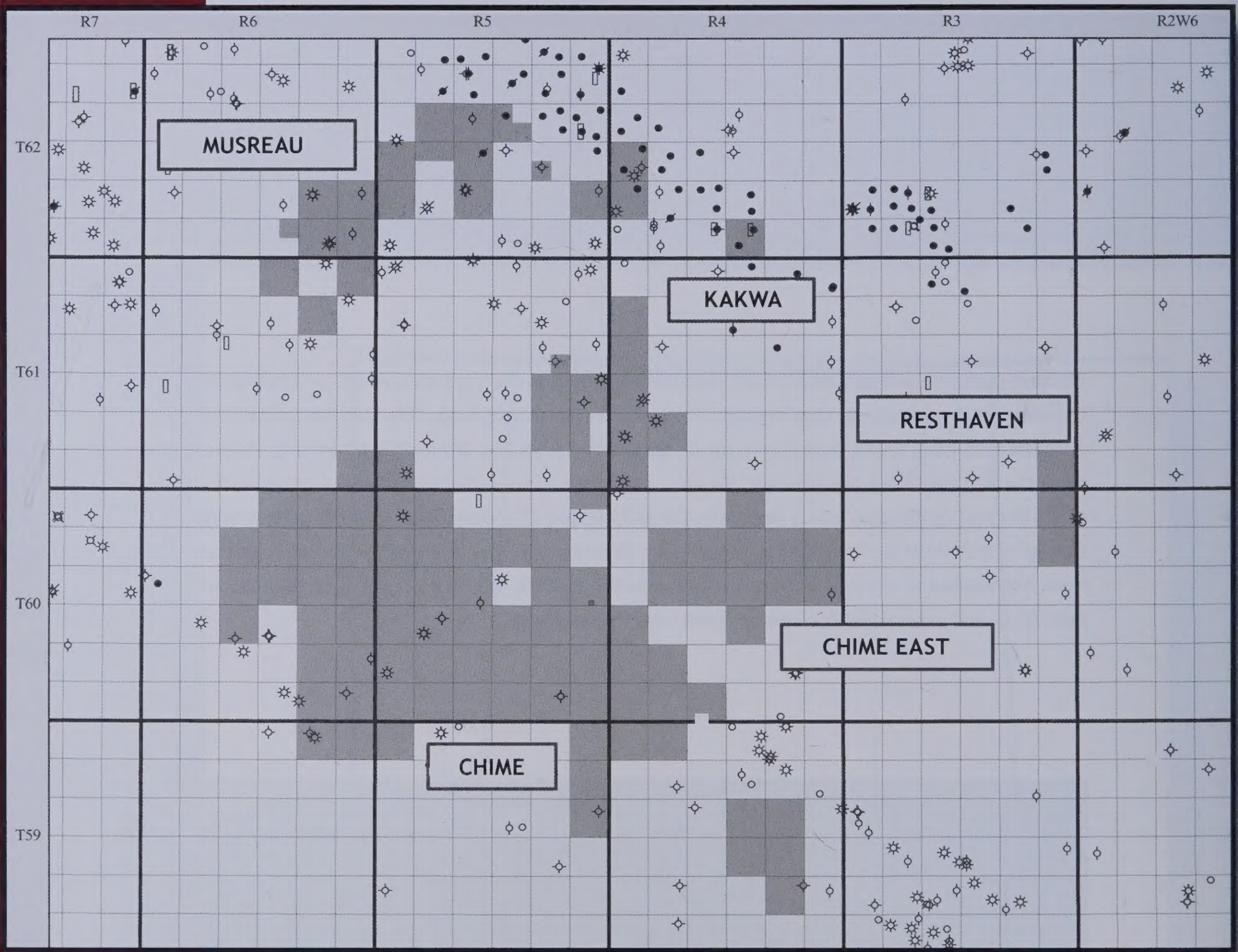
In addition, I would like to thank all of our shareholders for their continued support. Looking forward into 2005 your management remains very optimistic and enthusiastic.

George Ongyerth
President
March 4, 2005

"This area has become a hot spot over the past several months with unprecedented prices"



We have concentrated and focused our exploration efforts in our core area which we refer to as the Chime/Kakwa/Musreau area highlighted on the accompanying map. This area lies within the gas saturated Deep Basin, long known for its unique hydrodynamic trapping mechanisms, multizone potential and significant gas reserves. To date, we have assembled an enviable land position of over 110 gross sections on which we are in the early stages of exploration and development both through the drill bit and by shooting proprietary 3D seismic. Prices at crown land sales in this area have skyrocketed in the past year. In the first quarter of 2005, industry has paid over $40 million for petroleum and natural gas licenses on trend with Cinch's rights.

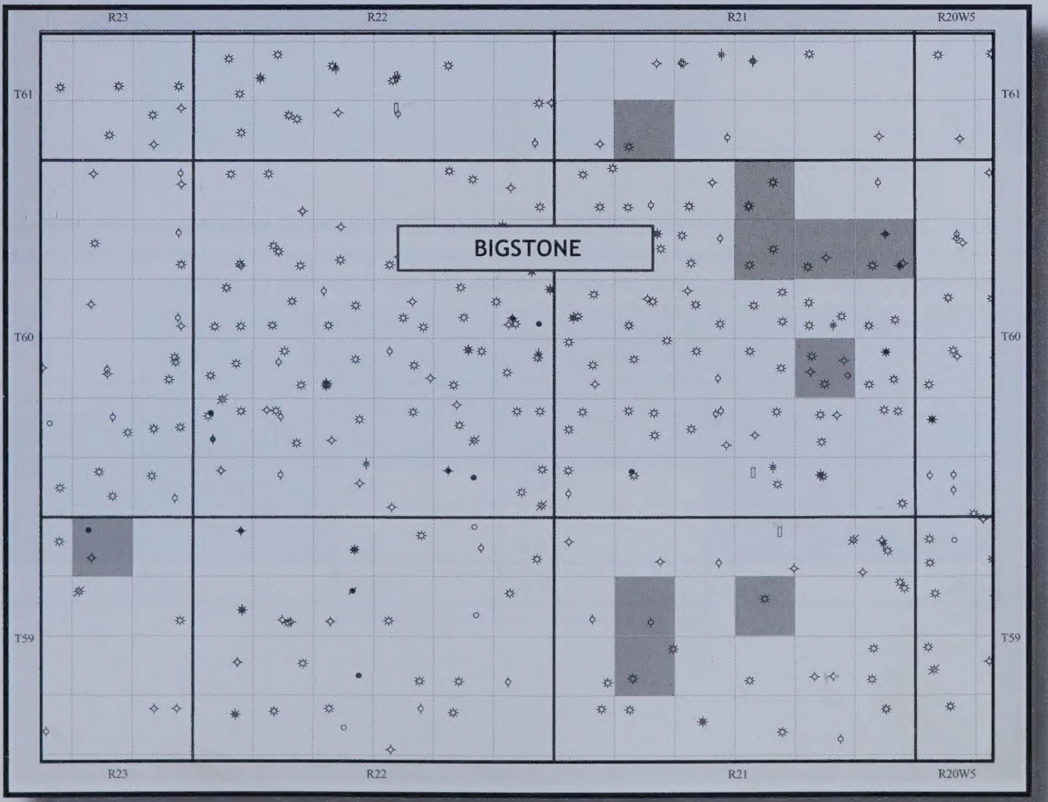


At ***MUSREAU***, we are focused on the Falher and Cadomin formations. Over the course of the last year, Cinch has participated in the drilling of four wells and we are drilling another well at report time. One well came on production in early 2004, one well is currently being tied in, and two wells await further evaluation.

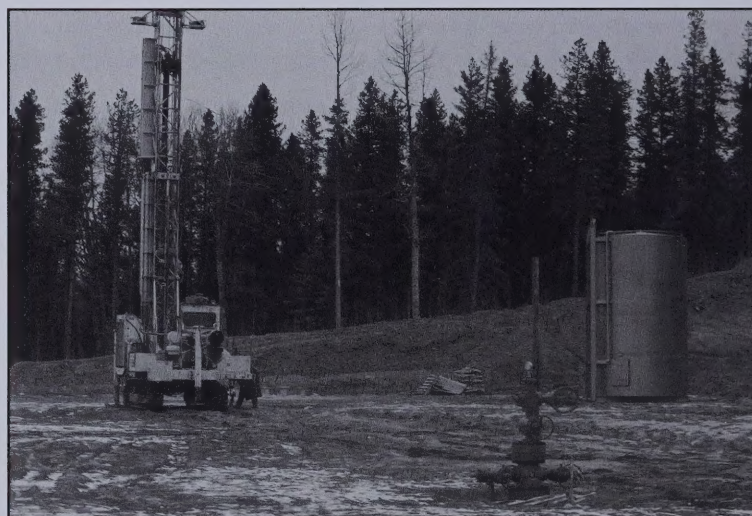
At ***KAKWA***, the play revolves around the Dunvegan formation. This is a complex delta front sequence characterized by shoreface sands cut by distributary channels over several different and repeatable cycles. A significant portion of Cinch's production comes from this area where we have drilled two important step-out wells leading to our decision to apply for downsized spacing units and to embark on a two well per section infill drilling program. This may ultimately lead to four additional 100% wells being drilled in this pool.

At ***CHIME***, we have drilled two wells, one for Dunvegan gas and one targeting the deeper Falher, Gething and Cadomin formations. Our Dunvegan well has been producing since December and plans are in place to offset this with a development well while the deep test has been recently cased and awaits a multizone completion attempt. We have also completed a 52 square kilometer 3D program ***(CHIME EAST)*** which we are in the process of interpreting. We intend on drilling at least three exploratory wells on these lands in the coming year.

Further afield at ***BIGSTONE***, we have drilled and cased a Gething channel well which further extends the productive capability we enjoy from our 3-25-60-21w5 well. Based on this encouragement, we acquired two more sections of Crown Land and are in the process of evaluating further drilling plans for 2005.



DRILLING



During 2004, the Company participated in the drilling of seven wells with six being cased as potential gas wells. In the Deep Basin, wells are typically cased and results are not known until completion operations are finished. Once completion operations are concluded, the well status may be updated.

Wells

	December 31, 2004		December 31, 2003	
	Gross	Net	Gross	Net
Gas	6.0	2.8	6.0	2.0
Oil	-	-	-	-
Dry	1.0	0.4	-	-
Total	7.0	3.2	6.0	2.0

Undeveloped Land

Cinch's undeveloped land inventory of 92,907 gross (44,616 net) acres represents a key asset to the Company. Approximately 73% percent of the Company's net undeveloped acres are located in the Chime/ Kakwa/Musreau areas of Alberta. Recent land sale activities in this area have seen significant land prices paid by industry with over $40 million being spent at Crown sales during the first quarter of 2005.

Opportunities for growth begin with a strong undeveloped land base in active areas. The Company's growth of undeveloped lands has come through industry farm-ins and the Rio Alto acquisition. This focused inventory of undeveloped lands will provide exploration growth for the Company for at least three years prior to any significant expiries. Of significance is the near doubling of the average working interest in the undeveloped lands from 23% in 2003 to 48% in 2004.

Undeveloped Land Holdings

	December 31, 2004	December 31, 2003
Gross acres	92,907	97,600
Net acres	44,616	22,640
Average working interest	48%	23%

Land Holdings by Area as of December 31, 2004

Working interest	Gross Acres	Net Acres	Average Working Interest
Chime/Kakwa/Musreau	79,840	32,589	41%
Gold Creek	5,760	5,760	100%
Karr	3,200	3,200	100%
Bigstone	2,560	1,520	59%
Other areas	1,547	1,547	100%
Total undeveloped land	**92,907**	**44,616**	48%

RESERVES

The corporate reserves estimates, effective December 31, 2004, were prepared by the independent engineering firm of Gilbert Laustsen Jung Associates Ltd. ("GLJ") in accordance with the definitions set out under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). The reserve highlights are:

- total proven reserves at December 31, 2004 increased 625% to 2.9 million boe compared to 0.4 million boe at December 31, 2003;
- total proven plus probable reserves at December 31, 2004 increased 443% to 3.8 million boe compared to 0.7 million boe at December 31, 2003;
- on a proven plus probable basis, the finding, development and acquisition costs were $20.11 per boe ($25.51 per boe on a proven basis);
- on a proven plus probable basis, the finding and development costs were $11.29 per boe ($13.37 per boe on a proven basis);
- acquisition capital included undeveloped land valued by Cinch Energy Corp. at $10.0 million. In addition, goodwill of $14.6 million was included in the acquisition capital.

The change to proved and probable reserve definitions implemented by NI 51-101 for the year ended December 31, 2004 and 2003 may make reserve quantity and value comparisons to years prior to 2003 difficult.

FORECASTED PRICES AND COSTS

Summary of Oil and Gas Reserves - Gross Reserves

				2004	2003	
	Light and Medium Crude Oil (mbbls)	Natural Gas Liquids (mmbls)	Natural Gas (mmcf)	Total (mboe)	Total (mboe)	Variance (2004 vs 2003)
Proved -developed producing	0	478	11,500	2,395	282	2,116
-developed non-producing	0	57	2,464	467	83	384
-undeveloped	0	0	0	0	81	(81)
Total proved	0	535	13,963	2,862	444	2,420
Probable	0	156	4,624	927	228	699
Total proved plus probable	0	691	18,588	3,789	671	3,120

Note: May not add due to rounding

[1] "Gross" means the total working interest (operating and non-operating) share before deduction of royalties payable to others and without including any royalty interest of Cinch.

Net Present Value of Future Net Revenues Before Income Taxes[2][3] - Forecasted Prices and Costs

	Undiscounted	Discounted at			
December 31, 2004[1]	($M)	8% ($M)	10% ($M)	15% ($M)	20% ($M)
Proved -developed producing	57,338	35,761	33,100	28,284	25,010
-developed non-producing	10,216	6,862	6,336	5,313	4,572
-undeveloped	0	0	0	0	0
Total proved	67,553	42,623	39,436	33,598	29,583
Probable	23,387	9,231	8,004	6,028	4,841
Total proved plus probable	**90,940**	**51,854**	**47,440**	**39,626**	**34,423**

Note: May not add due to rounding

(1) Utilizing GLJ January 1, 2005 price forecast

(2) As required by NI 51-101, undiscounted well abandonment costs of $0.6 million for total proved reserves and $0.7 million for total proved plus probable reserves are included in the Net Present Value determination

(3) Prior to provision of income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the undiscounted and discounted future net revenues estimated by GLJ represent the fair market value of the reserves.

Pricing Assumptions - Forecasted Prices and Costs

The January 1, 2005 pricing forecasts presented below have been prepared by GLJ. These prices have been utilized in determining the reserves and cash flow forecasts above. Cinch Energy Corp. produces natural gas and natural gas liquids, therefore oil pricing forecasts are not included below.

Year	Pentanes Plus Edmonton Light ($Cdn/bbl)	Natural Gas Alberta Plant Gate (Then Current) ($Cdn/mmbtu)
2005	50.75	6.35
2006	48.25	6.10
2007	46.00	5.90
2008	43.75	5.75
2009	41.25	5.75
2010	40.00	5.75
2011	40.00	5.75
2012	40.00	5.75
2013	40.50	5.85
2014	41.25	5.95
2015	41.75	6.05
2016+	+2.0%/Year	+2.0%/Year

CONSTANT PRICES AND COSTS

Net Present Value of Future Net Revenues Before Income Taxes[2][3] - Constant Prices and Costs

	Undiscounted	Discounted at			
December 31, 2004[1]	($M)	8% ($M)	10% ($M)	15% ($M)	20% ($M)
Proved -developed producing	63,235	39,529	36,513	31,016	27,261
-developed non-producing	11,772	7,850	7,231	6,028	5,158
-undeveloped	0	0	0	0	0
Total proved	75,006	47,378	43,744	37,044	32,419
Probable	23,740	10,267	8,972	6,814	5,477
Total proved plus probable	**98,746**	**57,646**	**52,717**	**43,859**	**37,897**

Note: May not add due to rounding

(1) Price assumptions: $48.97/bbl Cdn. Edmonton Pentanes Plus and $6.54/mmbtu Cdn. Alberta Plant Gate - Spot "then current"

(2) As required by NI 51-101, undiscounted well abandonment costs of $0.38 million for total proved reserves and $0.39 million for total proved plus probable reserves are included in the Net Present Value determination

(3) Prior to provision of income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the undiscounted and discounted future net revenues estimated by GLJ represent the fair market value of the reserves.

RESERVE RECONCILIATION

Reconciliation of Company Gross Reserves by Principal Product Type - Forecast Prices and Costs

	Crude Oil & NGL's (mbbls)		Natural Gas (bcf)		Equivalent (mboe)	
	Proved	Total Proved Plus Probable	Proved	Total Proved Plus Probable	Proved	Total Proved Plus Probable
Opening Balance January 1, 2004	29.0	42.0	2.49	3.78	444	671
Exploration discoveries	21.0	25.0	1.36	1.70	248	308
Drilling extensions	234.6	287.8	4.25	5.20	943	1,157
Improved recovery	0.0	0.0	0.00	0.00	0	0
Technical revisions	8.8	9.6	0.43	0.19	79	38
Acquisitions	268.5	354.5	6.44	8.73	1,342	1,810
Dispositions	0.0	0.0	0.00	0.00	0	0
Production	(26.9)	(26.9)	(0.99)	(0.99)	(192)	(192)
Closing Balance December 31, 2004	535.0	692.0	13.98	18.61	2,866	3,793

Note: May not add due to rounding

FINDING AND DEVELOPMENT COSTS (F&D) AND FINDING, DEVELOPMENT AND NET ACQUISITION COSTS (FD&A)

NI 51-101 specifies how finding and development ("F&D") costs should be calculated if they are reported. Essentially NI 51-101 requires that the exploration and development costs incurred in the year along with the change in estimated future development costs be aggregated and then divided by the applicable reserve additions. The calculation specifically excludes the effects of acquisitions and dispositions on both reserve and costs. By excluding the effects of acquisitions and dispositions Cinch believes that the provisions of NI 51-101 do not fully reflect Cinch's ongoing reserve replacement costs. Since acquisitions can have a significant impact on Cinch's annual reserve replacement costs, to not include these amounts could result in an inaccurate portrayal of Cinch's cost structure. Accordingly, Cinch will also report finding, development and acquisition ("F,D&A") costs that will incorporate all acquisitions net of any dispositions during the year.

	2004		2003		3 year average	
	Proven	Proven + Probable	Proven	Proven + Probable	Proven	Proven + Probable
Capital ($000's)						
Exploration and development	16,050	16,050	10,741	10,741	10,509	10,509
Acquisition	49,645	49,645	275	275	16,640	16,640
Change in future capital	926	926	(628)	(511)	482	581
Total capital ($000's)	66,621	66,621	10,388	10,505	27,630	27,730
Total capital excluding goodwill ($000's)	52,005	52,005	10,388	10,505	22,758	22,858
Reserve additions (mboe)						
Exploration and development	1,270	1,503	82	(245)	585	646
Acquisition	1,342	1,810	7	9	450	606
Total reserve additions (mboe)	2,612	3,313	89	(236)	1,034	1,252
Costs ($/boe)						
F&D	13.37	11.29	123.33	—	18.80	17.18
FD&A	25.51	20.11	116.72	—	26.71	22.15
FD&A excluding goodwill	19.91	15.70	116.72	—	22.00	18.26

Note: May not add due to rounding

NET ASSET VALUE

	Forecasted Prices		Constant Prices	
($ million, except per share)	8% B.T.	8% A.T.	8% B.T.	8% A.T.
Reserves proven and probable	51.8	44.9	57.6	48.8
Seismic data	2.0	2.0	2.0	2.0
Undeveloped land*	21.4	21.4	21.4	21.4
Debt	(15.4)	(15.4)	(15.4)	(15.4)
Common shares outstanding, basic	33.3	33.3	33.3	33.3
Net asset value ($/share)	$1.80	$1.59	$1.97	$1.71

The above table represents an internal calculation of the Net Asset Value of the Company's shares at year end. The majority of the Company's land is located in the Deep Basin which currently commands a very high price based on land prices paid at land sales in the first quarter of 2005.

* In our calculation, we have used $480 per acre as the average land price for our undeveloped land based on recent land sales.

PRODUCTION & RESERVE LIFE INDEX

The Company's reserve life index using annualized fourth quarter production is 8.0 years for proven boe reserves compared to 14.3 years in 2003 and 10.6 years for proven plus probable boe reserves compared to 21.6 years in 2003. Reserve life calculated using annualized fourth quarter production may be more reflective of reserve life due to the level of new production added during the last quarter of the year.

Cinch exited the year at 1500 boe/d and is currently producing 1350-1400 boe/d with 100 boe/d behind pipe. A multi-well compressor was installed in December 2004 to accompany production from the south Kakwa field. The installation of the multi-well compressor will ensure that Cinch can maintain the Kakwa production and minimize downtime due to fluctuations in line pressure and start-up of new wells into the Talisman gathering system. This multi-well compressor will accommodate new production from the drilling associated with the approval of the holding application for the Kakwa Dunvegan production.

	2004		2003	
	Using Annualized Q4 Production	Using Average Production	Using Annualized Q4 Production	Using Average Production
Production (boe/d)	981	525	85	124
Proved reserves (mboe)	2,866	2,866	444	444
Proved reserve life index (years)	8.0	15.0	14.3	9.8
Proved plus probable reserves (mboe)	3,793	3,793	671	671
Proved plus probable reserve life index (years)	10.6	19.8	21.6	14.8

RESERVE REPLACEMENT

The Company's 2004 capital investment program replaced 2004 annualized Q4 production by a factor of 7.3 times on a proved basis and 9.3 times on a proved plus probable basis. Cinch believes it is more representative to use the annualized Q4 production as a basis for the reserve replacement ratio as most of the production from the significant reserves additions was brought on late Q4.

	2004 (Average)	2004 (Annualized Q4)
Production (mboe)	192	358
Proved reserve additions after revisions of prior periods (mboe)	2,612	2,612
Proven replacement ratio	13.6	7.3
Proved plus probable reserve additions after revision of prior periods (mboe)	3,313	3,313
Proved plus probable replacement ratio	17.3	9.3

RECYCLE RATIO

The recycle ratio is a measure for evaluating the effectiveness of a company's re-investment program. The ratio measures the efficiency of capital investment. It accomplishes this by comparing the operating netback per barrel of oil equivalent to that year's reserve finding and development costs. Cinch presents the recycle ratio on both an FD&A basis (based on 2004 actual FD&A) and an F&D basis (which is more representative on a go forward basis).

	2004 (FD&A)[1]	2004 (F&D)
Operating netbacks ($/boe)	25.63	25.63
Proved finding, development and net acquisition costs after revision of prior periods and including the change in future development capital ($/boe)	25.51	13.37
Proved recycle ratios	1.0	1.9
Proved plus probable finding, development and acquisition costs after revisions of prior periods and including the change in future development capital ($/boe)	20.11	11.29
Proved plus probable recycle ratios	1.3	2.3

Note: May not add due to rounding

(1) The FD&A values include goodwill of $14.6 million.

ACQUISITION COSTS

Cinch's acquisition costs for the Canadian assets of Rio Alto Resources International Inc., comprised of land, property, plant and equipment, and goodwill, are shown in the table below. The Company realizes that on a per boe basis this acquisition may appear expensive, however significant operated high working interest land holdings, in an extremely prospective region of the deep basin, were part of this acquisition package. It is these lands that your Company considers very important to its future exploration program.

	Proven	Proven+ Probable
2004 acquisition capital ($000's)	49,645	49,645
Acquisition reserves (mboe)	1,342	1,810
2004 acquisition costs ($/boe)	36.99	27.43

MANAGEMENT'S DISCUSSION & ANALYSIS

March 4, 2005

Forward Looking Statements

Statements throughout this report that are not historical facts may be considered to be "forward looking statements". These forward looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals, or future plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to any number of factors, including such variables as new information regarding recoverable reserves, changes in demand for and commodity prices of crude oil and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Company operates and other factors discussed in this report.

Related Financial Information

The following discussion and analysis should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2004 and 2003. This commentary is based on the information available as at, and is dated, March 4, 2005. Additional information relating to Cinch, including Cinch's Annual Information Form when filed, is on SEDAR at *www.sedar.com*.

Basis of Presentation

The financial data below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All dollar amounts are presented in Canadian dollars, unless otherwise noted.

The MD&A contains the term "cash flow from operations" which should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with Canadian GAAP as an indicator of the Company's performance. The Company's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net income (loss) and cash flow from operations can be found in the Statements of Cash Flows included in the financial statements noted above. The Company also presents cash flow per share, where cash flow from operations is divided by the weighted average number of shares outstanding to determine per share amounts.

Growth Strategy

Cinch Energy Corp. ("Cinch" or the "Company") focuses on drilling as a means for achieving growth, and management believes that this is a viable and ultimately cost effective strategy. Management also believes that strategic acquisitions can and should play a part of our growth, where such acquisitions fit with and/or complement our own assets, or where they provide a balance to our existing program. During 2004, the Company acquired the Canadian assets of Rio Alto Resources International Inc. ("Rio Alto") for a gross purchase price of $48.7, or $45.9 million net of working capital, as the assets complemented Cinch's existing assets, provided exploration potential, and would integrate efficiently with Cinch's own operations. The Canadian assets of Rio Alto had been transferred into a numbered company, 1099017 Alberta Ltd., and Cinch completed the acquisition by purchasing 1099017 Alberta Ltd. on August 12, 2004.

Growth cannot be achieved without the right people, and Cinch has assembled a management team comprised of experienced and knowledgeable individuals, very familiar with the Deep Basin.

PRODUCTION

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	**2004**	2003	Change
Sales volumes			%			%
Natural gas (mcf/d)	**4,953**	464	968	**2,707**	697	288
Liquids (bbl/d)	**155**	8	1,916	**73**	8	866
Equivalence (boe/d)	**981**	85	1,055	**525**	124	324
	$	$	%	$	$	%
Sales prices						
Natural gas	**7.29**	5.83	25	**6.97**	7.11	(2)
Liquids	**49.66**	35.74	39	**48.68**	36.98	32
Equivalence	**44.70**	35.03	28	**42.79**	42.32	1

Sales volumes during the year and quarter ended December 31, 2004 increased due to production additions from locations drilled and production acquired from the Rio Alto acquisition, which is included in the Company's sales volumes after August 12, 2004. Sales volumes from the Rio Alto assets from the effective date of purchase of April 1, 2004 to the closing on August 12, 2004 averaged approximately 850 boe/d. Production volumes in the three months ended December 31, 2004 as reported above were lower than anticipated as a result of ongoing compression issues and related downtime in the Kakwa and Chime areas, hence Cinch installed and reworked compression on several locations in December to alleviate these issues.

In addition to production obtained from the above noted acquisition, new producing locations achieved from the drill bit include the Chime 05-17 well, in which Cinch has a 40.29% interest, the Musreau 08-02 well, in which Cinch has a 35% interest, and the Kakwa 16-13 well, in which Cinch has a 100% interest. The Kakwa 16-13 well started producing in the last week of December and hence did not raise the fourth quarter production average significantly, although the well is a strong producer, currently producing at approximately 350 boe/d net to Cinch.

The Chime 07-31 well, which was the initial producing well that Cinch had developed in the Chime area, continues to produce strongly and averaged a rate of 1.5 mmcf/d in the month of December (compared to 1.7 mmcf/d as of the date of our 2003 annual report).

The Company exited December 31, 2004 with production at approximately 1,500 boe/d. This rate includes production from the Kakwa 16-13 well at flush production rates. As mentioned, the 16-13 well is currently producing approximately 350 boe/d net to Cinch, although it is anticipated that the well will experience natural declines from this rate in the future.

Natural gas prices have remained fairly strong throughout 2004, and have also experienced higher levels of volatility. Despite the volatility, the Company's netback was comparable to 2003 and was also improved in the fourth quarter. The Company's production continues to be unhedged and is marketed in the Alberta spot market.

Natural gas liquids pricing improved over the fiscal year and fourth quarter of 2004, staying strong along with world oil prices. A large percentage of the Company's liquids are comprised of pentanes, which have been experiencing strong prices as of late.

REVENUES

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Oil and gas sales, net of transportation	4,036	274	1,373	8,215	1,912	330
Per boe	44.70	35.03	28	42.79	42.32	1

Revenues during the three months and year ended December 31, 2004 increased both as a result of the higher production levels and sales prices, as commented on above.

ROYALTIES

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Royalties, net of ARTC	1,211	75	1,515	2,205	274	705
Per boe	13.43	9.62	40	11.48	6.07	89

Royalties increased in the three months and year ended December 31, 2004 due to higher production levels and prices during the year. As well, a smaller percentage of the Company's production is on royalty holiday as compared to 2003.

OTHER INCOME

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Other income	2	31	(94)	145	113	28
Per boe	0.02	3.92	(99)	0.76	2.50	(70)

Other income is comprised primarily of interest income, which decreased in the three months and year ended December 31, 2004 as the Company expended its cash and short term deposits on capital expenditures and eventually accessed its bank line of credit on the acquisition of 1099017 Alberta Ltd.

OPERATING EXPENSES

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Operating	462	47	883	1,090	266	310
Per boe	5.12	6.07	(16)	5.68	5.88	(3)

Operating expenses are lower on a boe basis in the three months and year ended December 31, 2004 compared to the prior year and quarter as a result of higher production levels, since fixed operating costs are therefore allocated over a higher volume of production. In addition, the Company has been focusing on efficiencies and reducing operating costs where possible and will continue to do so. We anticipate that operating costs for 2005 will remain under $6.00 on a boe basis.

GENERAL AND ADMINISTRATIVE EXPENSES

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
General and administrative	490	345	42	1,463	1,180	24
Per boe	5.43	44.12	(88)	7.62	26.11	(71)

General and administrative costs have increased over the prior year primarily due to an increase in salaries and related compensation. In addition, two new positions had been created at the Company and a part-time position had been increased to full-time. General and administrative costs per boe have decreased over the three months and year ended December 31, 2003 as the Company's production levels have increased in 2004.

INTEREST EXPENSE

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Interest expense	74	0	100	87	0	100
Per boe	0.82	0.00	100	0.46	0.00	100

Interest expense increased in the three months and year ended December 31, 2004 as the Company had accessed its bank credit facility on the acquisition of 1099017 Alberta Ltd. on August 12, 2004.

ACCRETION OF ASSET RETIREMENT OBLIGATIONS EXPENSE

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Accretion expense	36	6	500	81	7	1057
Per boe	0.39	0.73	(47)	0.42	0.15	180

Accretion expense increased in both the year and quarter ended December 31, 2004 as a result of new well locations and gathering systems for which an asset retirement obligation will be incurred, some derived from the Rio Alto acquisition and the remaining from drilling.

DEPLETION AND DEPRECIATION EXPENSE

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Depletion and depreciation	1,434	6,392	(78)	3,128	6,910	(55)
Per boe	15.89	818.38	(98)	16.29	152.94	(89)

Depletion and depreciation expense (D&D) for the three months and year ended December 31, 2004 decreased from the prior year as the prior year included a ceiling test writedown of $6.1 million.

Depletion per boe has decreased as additional proven reserves were added during the year.

TAXES

In thousands, except where noted

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Current	(4)	(1)	300	13	4	225
Future income taxes (recovery)	148	(2,363)	(106)	193	(2,443)	(108)
Per boe	1.59	(302.53)	(101)	1.08	(53.98)	(102)

Current taxes in the three months and year ended December 31, 2004 and 2003 is comprised of Large Corporations Tax (LCT) and this amount increased over the prior year as a result of the financing activities of approximately $50.6 million in the current year, offset by the increase in the Large Corporations Tax exemption from $10 million to $50 million in 2004.

The future income taxes in the year ended December 31, 2004 arose primarily as a result of the acquisition of the Rio Alto assets, as the tax base of the assets acquired were approximately $22 million lower than the purchase price. Previously, the Company had an unrecorded tax debit, hence future income tax expense was not typically recorded, although at December 31, 2003 a future income tax recovery had been recorded as part of the ceiling test writedown.

The Company had tax pools of $37.5 million outstanding at December 31, 2004.

NET INCOME (LOSS) AND CASH FLOW FROM OPERATIONS

In thousands, except share and per share figures

	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
	$	$	%	$	$	%
Net income (loss)	**189**	(4,197)	(105)	**99**	(4,173)	(102)
-per basic share	**0.01**	(0.40)	(101)	**0.00**	(0.49)	(101)
-per diluted share	**0.01**	(0.40)	(101)	**0.00**	(0.49)	(100)
Cash flow from operations	**1,924**	(2)	(96,300)	**3,757**	793	374
-per basic share	**0.06**	(0.00)	27,597	**0.19**	0.09	104
-per diluted share	**0.05**	(0.00)	27,975	**0.17**	0.09	99
Weighted average shares and special warrants outstanding	**33,331,193**	8,524,890	291	**20,054,494**	8,495,673	136

The Company incurred a loss in the first quarter of 2004, however the remaining three quarters earned income such that the year ended with net income of $99,242. Production and natural gas prices were higher in the last three quarters of 2004 as compared to the first quarter. The prior year's loss included a ceiling test writedown of $6.1 million, which the Company did not experience in 2004.

Cash flow from operations in the three months and year ended December 31, 2004 were much higher as a result of higher production, attributable to drilling results and the acquisition of the Rio Alto assets, and as a result of fairly strong gas prices.

LIQUIDITY AND CAPITAL RESOURCES

In thousands, except where noted

	As at December 31		
	2004	2003	Change
	$	$	%
Net working capital (deficiency)	**(4,795)**	2,526	(290)
Bank debt	**(9,964)**	—	(100)
Net debt	**(14,759)**	2,526	(684)
Capital lease obligation	**621**	—	100
Shareholders' equity	**48,335**	11,413	324

The Company's balance sheet changed significantly in the year with the debt and equity financings completed in order to accomplish the acquisition of the Rio Alto assets, explaining the increase in net debt and shareholders' equity as at December 31, 2004. In conjunction with the acquisition, the Company increased its bank credit facility to $18 million, now bearing interest at the bank's prime lending rate. During November and December of 2004, the Company purchased and completed a sale/leaseback for four compressors in the Chime and Kakwa areas, giving rise to a capital lease obligation.

Management expects to fund its 2005 capital budget with a combination of available debt and cash flow. The 2005 capital budget could be accelerated and increased should the common share purchase warrants currently outstanding be exercised. Total warrants outstanding of 21,706,131, each exercisable into 0.4 of a common share at $2.375 per common share and expiring June 15, 2005, would potentially provide capital of up to $20.6 million to the Company, which would permit a change to the Company's current 2005 capital budget.

CAPITAL EXPENDITURES

Additions to property, plant and equipment

In thousands, except where noted

	Year Ended December 31	
	2004	2003
Land and rentals	133	716
Seismic	842	882
Drilling, completing and equipping	12,695	8,869
Pipelines and facilities	2,310	549
Other assets	69	112
Total	16,049	11,128

Capital expenditures in the year ended December 31, 2004, were incurred primarily on drilling and completing locations in the Chime, Kakwa, Musreau and Bigstone areas, as well as on a seismic program in the last quarter of 2004. The Company's program had been delayed by bad weather during the summer and early fall, so by the end of the third quarter the Company had expended only $4.7 million on additions to property, plant and equipment. The balance of 2004 additions of $11.4 million was incurred in the fourth quarter. During the year, the Company disposed of some non-core properties for proceeds of $0.6 million as these were not in a focus area.

Acquisition

As previously noted, the Company purchased the shares of 1099017 Alberta Ltd., holding the Canadian assets of Rio Alto, on August 12, 2004.

The purchase price has been allocated as follows:

In thousands, except where noted

	$
Cash acquired	4,080
Working capital deficiency, excluding cash acquired	(1,363)
Undeveloped land	10,000
Property, plant and equipment	25,029
Goodwill	14,617
Asset retirement obligation	(976)
Future taxes	(2,683)
Total purchase price	48,704
Cash consideration	48,500
Transaction costs	204
Total consideration	48,704

This acquisition was significant to the Company and management considered it a strategic fit, complementing the Company's existing assets. Management was also familiar with the type of exploration plays acquired. The acquisition provided undeveloped land and additional cash flows, both of which are expected to facilitate the Company's future growth.

Tax pools at December 31, 2004

In thousands, except where noted

	2004	2003
COGPE	4,172	956
CDE	13,041	1,202
CEE	11,287	8,199
Tangibles	9,049	1,502
Total	37,549	11,859

The Company's tax pools increased significantly in 2004 as a result of the acquisition of 1099017 Alberta Ltd., which Cinch amalgamated with immediately after the acquisition on August 12, 2004. The acquisition provided tax pools of approximately $23 million. Drilling and completion expenditures also added tax pools during the year, however a component of the equity financing completed for the Rio Alto acquisition was flow through common shares and flow through subscription receipts. This flow through equity totaled $10 million, of which all has been renounced effective December 31, 2004 and of which $6.5 million has been incurred as of December 31, 2004. The Company anticipates no difficulties in incurring the remaining $3.5 million expenditures in 2005.

BUSINESS RISKS AND RISK MANAGEMENT

The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Cinch Energy Corp. attempts to reduce risk in accomplishing these goals through the combination of hiring experienced and knowledgeable personnel and careful evaluation.

The Company's program is exploratory in nature and in areas with deep, tight gas. The wells the Company drills therefore tend to be deep (almost all are deeper than 2,500 meters), subject to higher drilling costs than in more shallow areas and most wells require a fracture before they are capable of production, also increasing costs. The Company mitigates the additional economic pressure that this creates by carefully evaluating risk/reward scenarios for each location, by practicing prudent operations so that drilling risk is decreased, by ranking and limiting the zones that the Company is willing to complete, and also by drilling deep so that the multi-zone potential of the area can be accessed and potentially developed. The Company operates the majority of its lands providing a measure of control over the timing and location of capital expenditures. In addition, the Company monitors capital spending, with a comparison to financial resources, on an ongoing and regular basis so that the Company maintains liquidity so that future financial resource requirements can be anticipated.

Commodity price fluctuations can pose a risk to the Company, and management monitors these on an ongoing basis. External factors beyond the Company's control may affect the marketability of the natural gas and natural gas liquids produced. The Company has not to date implemented any hedging instruments, although has not precluded the possibility of doing so.

The Company has selected the appropriate personnel to monitor operations and has automated field information where possible, so that difficulties and operational issues can be assessed and dealt with on a timely basis, and so that production can be maximized as much as possible.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, and spills, each of which could result in damage to wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company insures against most of these risks (although not all such risks are insurable). The Company maintains liability insurance in an amount that it considers consistent with industry practice, although the nature of these risks is such that liabilities could potentially exceed policy limits. The Company also reduces risk by operating a large percentage of its operations. As such, the Company has control over the quality of work performed and the personnel involved.

The Company anticipates making substantial capital expenditures in future for the exploration, development, acquisition and production of oil and natural gas reserves. If the Company's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing will be available. The Company mitigates this risk by monitoring expenditures, operations and results of operations in order to manage available capital effectively.

FUTURE PROSPECTS

Management is optimistic about the growth of the Company. Cinch has assembled a large, contiguous block of land which is still relatively unexplored. Preliminary results are positive and, although presenting some challenges, point to an asset with much development potential. With prudent risk management, careful evaluation of results, and continued development of the lands, management believes that the Company will continue to grow and that success will continue to be achieved.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND GUARANTEES

The Company has assumed various contractual obligations and commitments in the normal course of its operating and financing activities. These obligations and commitments have been considered when assessing the Company's cash requirements in its analysis of future liquidity.

In thousands, except where noted

					Payments
	Total	< 1 year	1-3 years	4-5 years	> 5 years
Working capital deficiency	**4,795**	4,795	–	–	–
Revolving credit facility [1]	**9,964**	9,964	–	–	–
Capital lease obligation	**621**	–	621	–	–
Operating lease	**293**	91	202		
Asset retirement obligations	**1,633**	319	354	179	781
Total	17,306	15,169	1,177	179	781

[1] This facility is demand in nature and pursuant to the Canadian accounting guidelines, is presented as a current liability on the balance sheet. The Company anticipates that no repayment will be necessary in the foreseeable future.

CHANGES IN ACCOUNTING POLICIES ADOPTED SUBSEQUENT TO DECEMBER 31, 2003

Full Cost Accounting

Effective January 1, 2004, the Company adopted Accounting Guideline 16 "Oil and Gas Accounting - Full Cost", the new guideline issued by the Canadian Institute of Chartered Accountants ("CICA") replaces Accounting Guideline 5, "Full Cost Accounting in the Oil and Gas Industry". Under the new guideline, the Company tests impairment against undiscounted future net revenue from proved reserves using expected future prices and costs as well as the income tax and Alberta Royalty Tax Credit legislation in effect at the period end. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net revenues, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined using expected future prices and costs as well as the income tax and Alberta Royalty Tax Credit legislation in effect at period end, each amount discounted using a risk free interest rate.

INITIAL ADOPTION OF AN ACCOUNTING POLICY

Goodwill

Pursuant to the acquisition of 1099017 Alberta Ltd. completed on August 12, 2004, the Company adopted a policy for accounting for goodwill. Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is subject to ongoing annual impairment reviews, or more frequent as economic events dictate, based on the fair value of the Company's assets. The fair value of the Company's assets is determined and compared to the book value of those assets. If the fair value of the assets is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the Company's individual assets and liabilities from the fair value of the total assets to determine the implied fair value of goodwill and comparing that amount to the book value of the Company's goodwill. Any excess of the book value over the implied value of goodwill is the impairment amount.

CRITICAL ACCOUNTING ESTIMATES

There are a number of critical estimates underlying the accounting policies the Company applies in preparing its financial statements.

Reserves

The estimate of proved reserves is used to forecast what will ultimately be recoverable from the properties and their economic viability and in calculating the Company's depletion and potential impairment of asset carrying costs. The process of estimating reserves is complex and requires significant interpretation and judgment. It is affected by economic conditions, production, operating and development activities, and is performed using available geological, geophysical, engineering and economic data.

Reserves at year end are evaluated by an independent engineering firm and quarterly updates to those reserves are estimated by the Company.

Revenue Estimates

Payment and actual amounts for petroleum and natural gas sales can be received months after production. The Company estimates a portion of its petroleum and natural gas production, sales and related costs, based upon information received from field offices, internal calculations, historical and industry experience.

Cost Estimates

Costs for services performed but not yet billed are estimated based on quotes provided and historical and industry experience.

Asset Retirement Obligations

The liability recorded for asset retirement obligations, an estimate of restoring assets and locations back to environmental and regulatory standards upon future retirement or abandonment, include estimates of restoration costs to be incurred in the future and an estimated future inflation rate. Costs estimated are based upon internal and third party calculations and historical experience and future inflation rates are estimated using historical experience and available economic data.

SELECTED ANNUAL AND QUARTERLY INFORMATION

(000's, except per share data)

	Q1	Q2	Q3	Q4	Annual
2004	$	$	$	$	$
Petroleum and natural gas sales, net of transportation	733	873	2,577	4,033	8,215
Cash flow from operations	190	329	1,314	1,924	3,757
Per share - basic	0.02	0.03	0.06	0.06	0.19
- diluted	0.02	0.03	0.06	0.05	0.17
Net income (loss)	(231)	11	131	189	99
Per share - basic	(0.02)	0.00	0.01	0.01	0.00
- diluted	(0.02)	0.00	0.01	0.01	0.00
Capital expenditures	1,726	1,492	1,446	11,385	16,049
Acquisition	—	—	48,625	79	48,704
Total assets	13,548	54,995	66,060	77,560	77,560
Working capital (net debt)	990	108	(6,011)	(14,759)	(14,759)
Production (boe/d)	204	216	691	981	525
2003	$	$	$	$	$
Petroleum and natural gas sales, net of transportation	813	482	343	274	1,912
Cash flow from operations	478	270	47	(2)	793
Per share - basic	0.07	0.04	0.01	(0.00)	0.09
- diluted	0.07	0.03	0.01	(0.00)	0.09
Net income (loss)	(60)	191	(107)	(4,197)	(4,173)
Per share - basic	(0.01)	0.02	(0.01)	(0.40)	(0.49)
- diluted	(0.01)	0.02	(0.01)	(0.40)	(0.49)
Capital expenditures	1,530	3,394	2,808	3,395	11,128
Total assets	13,234	13,655	14,731	13,615	13,615
Working capital (net debt)	2,659	(465)	937	2,526	2,526
Production (boe/d)	182	126	98	85	124
2002	$	$	$	$	$
Petroleum and natural gas sales, net of transportation	—	—	—	145	145
Cash flow from operations	(39)	(49)	(49)	12	(125)
Per share - basic	(0.02)	(0.02)	(0.01)	0.00	(0.04)
- diluted	(0.02)	(0.02)	(0.01)	0.00	(0.03)
Net income (loss)	(39)	(49)	(51)	(36)	(175)
Per share - basic	(0.02)	(0.02)	(0.01)	(0.01)	(0.05)
- diluted	(0.02)	(0.02)	(0.01)	(0.01)	(0.05)
Capital expenditures	18	531	2,395	1,715	4,659
Total assets	326	3,348	4,843	6,925	6,925
Working capital (net debt)	284	2,473	29	1,485	1,485
Production (boe/d)	—	—	—	43	11

Note: numbers may not cross-add due to rounding

AUDITORS' REPORT

To the Shareholders of
Cinch Energy Corp.

We have audited the balance sheets of Cinch Energy Corp. as at December 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Calgary, Canada
March 4, 2005

Chartered Accountants

CINCH ENERGY CORP.

BALANCE SHEETS

As at December 31	2004 $	2003 $
ASSETS *[note 7]*		
Current		
Cash and term deposits *[note 4]*	—	3,612,148
Accounts receivable *[note 5]*	5,359,644	681,142
Prepaid expenses and deposits	729,502	172,809
	6,089,146	4,466,099
Property, plant and equipment *[note 6]*	56,854,192	9,148,447
Goodwill *[note 6]*	14,616,996	—
	77,560,334	13,614,546
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	10,677,651	1,940,425
Credit facility *[note 7]*	9,963,616	—
Current portion of capital lease obligation *[note 8]*	206,921	—
	20,848,188	1,940,425
Capital lease obligation *[note 8]*	620,764	—
Asset retirement obligations *[notes 6 and 9]*	1,633,234	261,485
Future income tax liability *[note 10]*	6,123,388	—
	29,225,574	2,201,910
Commitments *[note 12]*		
Shareholders' equity		
Share capital *[note 11]*	51,840,767	15,261,090
Contributed surplus *[note 11]*	753,449	510,244
Deficit	(4,259,456)	(4,358,698)
	48,334,760	11,412,636
	77,560,334	13,614,546

See accompanying notes

On behalf of the Board:

John W Elick

Director

R D Robertson

Director

CINCH ENERGY CORP.

STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31	2004 $	2003 $
Revenue		
Oil and gas sales	**8,507,486**	1,997,355
Transportation	**(292,773)**	(85,456)
Royalties, net of Alberta Royalty Tax Credit	**(2,205,060)**	(274,424)
Other income	**145,083**	113,081
	6,154,736	1,750,556
Expenses		
Operating	**1,089,768**	265,710
General and administrative *[note 11]*	**1,462,605**	1,179,726
Interest on credit facility	**87,366**	—
Accretion of asset retirement obligations *[note 9]*	**81,149**	6,770
Depletion and depreciation *[note 6]*	**3,127,970**	6,910,030
	5,848,858	8,362,236
Income (loss) before taxes	**305,878**	(6,611,680)
Taxes		
Current	**13,150**	3,775
Future income taxes (recovery) *[note 10]*	**193,486**	(2,442,816)
	206,636	(2,439,041)
Net income (loss) for the year	**99,242**	(4,172,639)
Deficit, beginning of year	**(4,358,698)**	(186,059)
Deficit, end of year	**(4,259,456)**	(4,358,698)
Net income (loss) for the year per share *[note 11]*		
Basic and diluted	**0.00**	(0.49)
Weighted average number of shares outstanding *[note 11]*	**20,054,494**	8,495,673

See accompanying notes

CINCH ENERGY CORP.

STATEMENTS OF CASH FLOWS

For the years ended December 31	2004 $	2003 $
Operating activities		
Net income (loss) for the year	**99,242**	(4,172,639)
Add non-cash items:		
Depletion and depreciation	**3,127,970**	6,910,030
Accretion of asset retirement obligations	**81,149**	6,770
Non-cash compensation expense *[note 11]*	**254,705**	491,344
Future income taxes (recovery)	**193,486**	(2,442,816)
Cash flow from operations	**3,756,552**	792,689
Net change in non-cash working capital	**(1,467,607)**	48,062
Cash provided by operating activities	**2,288,945**	840,751
Investing activities		
Additions to property, plant and equipment	**(16,049,479)**	(11,127,503)
Dispositions of property, plant and equipment	**560,000**	–
Acquisition, net of cash acquired *[note 6]*	**(44,624,190)**	–
Net change in non-cash working capital	**3,576,441**	701,399
Cash used by investing activities	**(56,537,228)**	(10,426,104)
Financing activities		
Increase in credit facility	**9,963,616**	–
Issue of subscription receipts, net of issue costs	**37,304,676**	–
Issue of common shares, net of issue costs	**2,509,839**	9,696,365
Proceeds from capital lease	**827,685**	–
Issue of special warrants, net of issue costs	**–**	1,741,901
Net change in non-cash working capital	**30,319**	(12,289)
Cash provided by financing activities	**50,636,135**	11,425,977
Increase (decrease) in cash and term deposits	**(3,612,148)**	1,840,624
Cash and term deposits, beginning of year	**3,612,148**	1,771,524
Cash and term deposits, end of year	**–**	3,612,148
Supplemental information:		
Cash taxes paid	**3,775**	–
Cash interest paid	**74,865**	–

See accompanying notes

CINCH ENERGY CORP.

December 31, 2004 and 2003

1. DESCRIPTION OF BUSINESS

Cinch Energy Corp. (the "Company") was incorporated under the laws of the Province of Alberta and commenced operations on December 1, 2001. The Company's activities are comprised of the exploration for and development of oil and natural gas properties, primarily in Western Canada. On August 12, 2004, the Company acquired all of the issued and outstanding common shares of 1099017 Alberta Ltd. ("1099017") , and amalgamated with 1099017 immediately thereafter, continuing as Cinch Energy Corp.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, have in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Cash and Term Deposits

Term deposits with initial maturities less than three months are considered to be cash equivalents and are recorded at cost, which approximates market value.

Property, Plant and Equipment

Petroleum and natural gas properties

The Company follows the full cost method of accounting for its oil and gas operations in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in a Canadian cost center and charged to income as set out below. Such costs can include lease acquisition, drilling, geological and geophysical, and equipment costs, and overhead expenses directly related to exploration and development activities. Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets, except when such a disposal would alter the depletion rate by more than 20 percent, in which case a gain or loss will be recorded.

Depletion

Depletion of petroleum and natural gas properties and related production equipment is provided on accumulated costs using the unit of production method based on estimated proven petroleum and natural gas reserves, before royalties, as determined by independent engineers. For purposes of the depletion calculation, proven petroleum and natural gas reserves are converted to a common unit of measure on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of petroleum. The depletion cost base includes total capitalized costs, less costs of unproven properties, plus a provision for future development costs of proven undeveloped reserves

Ceiling test

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. The Company tests impairment against undiscounted future net revenue from proved reserves using expected future prices and costs as well as the income tax and Alberta Royalty Tax Credit legislation in effect at the period end. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net revenues, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined using expected future prices and costs as well as the income tax and Alberta Royalty Tax Credit legislation in effect at period end, each amount discounted using a risk free interest rate.

Office furniture and equipment

Office furniture and equipment is carried at cost and depreciated on a straight-line basis over the assets' estimated useful lives at a rate of 25% per annum.

CINCH ENERGY CORP.

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Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is subject to ongoing annual impairment reviews, or more frequent as economic events dictate, based on the fair value of the Company's assets. The fair value of the Company's assets is determined and compared to the book value of those assets. If the fair value of the assets is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the Company's individual assets and liabilities from the fair value of the total assets to determine the implied fair value of goodwill and comparing that amount to the book value of the Company's goodwill. Any excess of the book value over the implied value of goodwill is the impairment amount.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those which transfer substantially all the benefits and risks of ownership to the lessee. Assets acquired under capital leases are depleted along with the petroleum and natural gas properties. Obligations recorded under capital leases are reduced by the principal portion of lease payments as incurred and the imputed interest portion of capital lease payments is charged to expense and amortized straight-line over the life of the lease. Operating lease payments are charged to expense.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation and a corresponding increase in the carrying value of the related long-lived asset in the period in which they are incurred. The fair value of the obligation is management's best estimate of the cost to retire the asset based on current legislation and industry practice. The increase in the carrying value of the asset is amortized on a unit of production basis consistent with the method used to record depletion on the Company's petroleum and natural gas properties. The liability is subsequently adjusted for the passage of time, which is recognized as accretion expense in the statement of operations and deficit. The liability is periodically adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the obligation.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and other assets, the provision for asset retirement obligations, and the ceiling test calculation are based on estimates of proven or proven and probable reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Joint Operations

Substantially all of the Company's exploration and development activities are conducted jointly with others and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Flow Through Shares

The Company finances a portion of its exploration and development activities through the issuance of flow through shares. Under the terms of a flow through share issue, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, share capital is reduced and future income taxes are increased by the estimated amount of future income taxes payable when the expenditures are renounced to the subscribers.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the difference between the financial statement carrying value and the income tax basis of an asset or liability. Future income tax assets and liabilities are measured using income tax rates and laws that are expected to apply in the periods in which differences are anticipated to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net loss in the period in which the change is substantively enacted.

Revenue Recognition

Revenues from the sale of petroleum and natural gas and related products are recognized when title passes.

Stock Based Compensation

The Company has a stock based compensation plan, which is described in note 11. The Company has adopted the fair value based method of accounting for stock options *[note 3]*. Stock option expense is recorded as a general and administrative expense for all options granted on or after January 1, 2003, with a corresponding increase recorded to contributed surplus. The fair value of options granted is estimated at the date of grant using the Black-Scholes valuation model. Consideration paid by employees or directors on the exercise of stock options is credited to share capital. At the time of exercise, the related amounts previously credited to contributed surplus are also transferred to share capital.

Per Share Information

Per share information is calculated using the treasury stock method. Under this method, the diluted weighted average number of common shares is calculated assuming that the proceeds from the exercise of outstanding and in the money options is used to purchase common shares at the estimated average market price. During the periods presented, the effect on the net loss per share from the exercise of special warrants and options is anti-dilutive.

Financial Instruments

Financial instruments recognized on the balance sheet consist of cash and term deposits, accounts receivable, deposits, accounts payable, credit facility, and capital lease obligations. As at December 31, 2004 and 2003, there were no significant differences between the carrying amounts of these financial instruments reported on the balance sheet and their estimated fair values.

3. CHANGE IN ACCOUNTING POLICIES

Full Cost Accounting

Effective January 1, 2004, the Company adopted Accounting Guideline 16 "Oil and Gas Accounting - Full Cost", the new guideline issued by the Canadian Institute of Chartered Accountants ("CICA") replaces Accounting Guideline 5 "Full Cost Accounting in the Oil and Gas Industry". Under the new guideline, the Company tests impairment against undiscounted future net revenue from proved reserves using expected future prices and costs as well as the income tax and Alberta Royalty Tax Credit legislation in effect at the period end. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net revenues, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined using expected future prices and costs as well as the income tax and Alberta Royalty Tax Credit legislation in effect at period end, each amount is discounted using a risk free interest rate.

The adoption of the new guideline resulted in no change to net income, property, plant and equipment or other reported amounts in the December 31, 2003 financial statements.

Stock Based Compensation

As at December 31, 2003, and effective from January 1, 2003, the Company adopted CICA Handbook section 3870 - Stock-Based Compensation and Other Stock-Based Payments which is the fair value method of valuing stock based compensation. The Company applied this change prospectively for new awards granted on or after January 1, 2003. In periods prior to January 1, 2003, no stock or stock options were issued to employees or directors.

Asset Retirement Obligations

Effective January 1, 2003, and as reported in the December 31, 2003, annual financial statements, the Company adopted CICA Handbook section 3110 - Asset Retirement Obligations. The Company applied this change retroactively with restatement of prior periods.

CINCH ENERGY CORP.

December 31, 2004 and 2003

4. CASH AND TERM DEPOSITS

As at December 31, 2003, cash and term deposits consisted of term deposits with maturities of 90 days or less of $3,660,385 and an overdraft of $48,237. The term deposits earned interest at 2.53%.

5. ACCOUNTS RECEIVABLE

A substantial portion of the Company's accounts receivable is with oil and gas marketing entities. The Company generally extends unsecured credit to these companies, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit.

The Company has not previously experienced any material credit losses on the collection of receivables. Of the Company's significant individual accounts receivable at December 31, 2004, approximately 83% was owed from six customers (December 31, 2003 - 79% was owed from four customers).

6. PROPERTY, PLANT AND EQUIPMENT

Acquisition

On August 12, 2004, the Company acquired the Canadian petroleum and natural gas properties and related assets of Rio Alto Resources International Inc. ("Rio Alto"), by purchasing the shares of a newly created subsidiary company of Rio Alto, 1099017 Alberta Ltd., holding such assets since the effective date of April 1, 2004, for a purchase price of $48.703 million, or $45.987 million net of working capital acquired. Immediately after the acquisition, the Company amalgamated with 1099017 Alberta Ltd. and continued as Cinch Energy Corp.

The Company financed the acquisition with the proceeds of a subscription receipt and flow through subscription receipt private placement, as more fully described in note 11, and with its credit facility, as described in note 7.

The purchase price has been allocated as follows:

	$
Cash acquired	4,079,476
Working capital deficiency, excluding cash acquired	(1,362,878)
Undeveloped land	10,000,000
Property, plant and equipment	25,029,299
Goodwill	14,616,996
Asset retirement obligation	(975,663)
Future taxes	(2,683,563)
Total purchase price	48,703,667
Cash consideration	48,500,000
Transaction costs	203,667
Total consideration	**48,703,667**

The acquisition was accounted for using the purchase price method and therefore revenues and expenses from the acquired assets have been included in the statements of operations and deficit from August 12, 2004.

CINCH ENERGY CORP.

December 31, 2004 and 2003

Property, plant and equipment

	December 31, 2004		
	Cost $	Accumulated depreciation $	Net book value $
Petroleum and natural gas properties	65,992,834	(10,012,446)	55,980,388
Equipment under capital lease	827,685	(25,282)	802,403
Office furniture and equipment	121,313	(49,912)	71,401
	66,941,832	(10,087,640)	56,854,192

	December 31, 2003		
	Cost $	Accumulated depreciation $	Net book value $
Petroleum and natural gas properties	16,020,247	(6,934,728)	9,085,519
Office furniture and equipment	87,870	(24,942)	62,928
	16,108,117	(6,959,670)	9,148,447

For the years ended December 31, 2004 and 2003, no indirect general and administrative expenditures were capitalized.

The Company has performed an impairment test as of December 31, 2004 using the estimated average price for each of the next five years as determined by the Company's independent reserve engineers adjusted for differentials specific to the Company's reserves as follows:

	Natural Gas $/mmbtu Cdn	Natural Gas Liquids $/bbl Cdn
2005	6.35	50.75
2006	6.10	48.25
2007	5.90	46.00
2008	5.75	43.75
2009	5.75	41.25

Each benchmark price increased by an average of 0% from 2010 to 2012 and 2% from 2013 and thereafter.

As at December 31, 2004, $12,843,595 of costs related to undeveloped lands were excluded from costs subject to depletion [December 31, 2003 - $996,413].

For the year ended December 31, 2003, the Company charged $6,100,000 to depletion and depreciation pursuant to the ceiling test performed as at December 31, 2003. No ceiling test writedown was required at December 31, 2004.

CINCH ENERGY CORP.

December 31, 2004 and 2003

7. CREDIT FACILITY

The Company has an $18,000,000 [December 31, 2003 - $2,000,000] revolving, demand, bank credit facility bearing interest at the lender's prime rate [December 31, 2003 - prime rate plus ¼%]. The effective interest rate at December 31, 2004 was 4.25%. The Company increased the facility on August 12th, 2004 to finance a portion of the acquisition of 1099017 Alberta Ltd. *[note 6]*. As at December 31, 2004, $9,963,616 [December 31, 2003 - nil] has been drawn under this facility. As security for the facility, the Company has provided a general security agreement with the lender constituting a first ranking security interest in all personal property and a first ranking floating charge on all real property of the Company.

8. CAPITAL LEASE OBLIGATION

The Company is committed to annual minimum payments under a capital lease agreement which commenced in December, 2004, as follows:

Years ending December 31	$
2005	228,729
2006	228,729
2007	228,729
2008	228,729
Total minimum lease payments	914,916
Less amounts representing interest at 5.12%	87,231
Present value of minimum lease payments	827,685
Less current portion	206,921
Capital lease obligation at December 31, 2004	620,764

No interest expense was incurred or recorded on capital leases during 2004 [2003 - nil].

9. ASSET RETIREMENT OBLIGATIONS`

The Company has recorded a liability for asset retirement obligations of $1,633,234 as at December 31, 2004 [December 31, 2003 - $261,485]. Liabilities of $13,815 were settled in the current year [2003 - $62,500] and accretion expense of $81,149 [2003 - $6,770] was recorded. The total undiscounted amount of the estimated future cash requirements at December 31, 2004 is $2,636,113 [December 31, 2003 - $533,135], discounted using a credit-adjusted risk free rate of 5% [2003 - 5%] and inflated using a rate of 2% [2003 - 2%] to arrive at the recorded liability of $1,633,234 [December 31, 2003 - $261,485], and is expected to be incurred at the end of the reserves average useful life of 8.1 years [2003 - 7.6 years].

CINCH ENERGY CORP.

December 31, 2004 and 2003

The Company's asset retirement obligations changed as follows:

	December 31, 2004	December 31, 2003
	$	$
Asset retirement obligations, beginning of year	**261,485**	76,665
Liabilities acquired *[note 6]*	**975,663**	—
Liabilities incurred	**328,752**	240,550
Liabilities settled	**(13,815)**	(62,500)
Accretion expense	**81,149**	6,770
Asset retirement obligations, end of year	**1,633,234**	261,485

10. FUTURE INCOME TAXES

Income tax recovery differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates to loss before income taxes. The reasons for the differences are as follows:

	December 31, 2004	December 31, 2003
Statutory income tax rate	**38.62%**	40.62%
	$	$
Anticipated income taxes (recovery)	**118,130**	(2,685,664)
Increase/(decrease) resulting from:		
Resource allowance	**(459,991)**	(38,512)
Non-deductible crown royalties, net of Alberta Royalty Tax Credit	**423,105**	22,903
Non-deductible items	**3,262**	5,710
Rate adjustment	**10,613**	207,401
Stock compensation expense	**98,367**	199,584
Change in valuation allowance	**—**	(154,237)
Future income taxes (recovery)	**193,486**	(2,442,816)

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

	December 31, 2004	December 31, 2003
	$	$
Net book value of capital assets in excess of tax pools	**(7,631,292)**	(181,032)
Share issue costs	**958,811**	231,904
Asset retirement obligations	**549,093**	77,968
Valuation allowance	**—**	(128,840)
Future tax liability	**(6,123,388)**	—

CINCH ENERGY CORP.

December 31, 2004 and 2003

11. SHARE CAPITAL

Authorized - Unlimited number of common voting shares without par value

	December 31, 2004		December 31, 2003	
Issued	**Number**	**$**	Number	$
Common shares (iii)				
Balance, beginning of year	5,364,440	8,242,356	1,200,040	99,110
Exercise of flow through subscription receipts (i)	3,333,333	6,984,290	–	–
Exercise of subscription receipts (i)	17,364,905	30,320,386	–	–
Exercise and conversion of special warrants (ii)	5,790,458	6,746,040	–	–
Issued for cash on private placement (iii)	1,111,112	2,500,000	–	–
Issued for cash on option exercise (iv)	70,000	142,500	–	–
Issued for cash on brokers' warrant exercise (v)	70,054	95,861	–	–
Issued for cash on flow through private placement (vi)	–	–	180,000	427,500
Issued for cash on private placement (vii)	–	–	200,000	50,000
Issued for cash on private placement (viii)	–	–	100,000	187,500
Issued for cash on private placement (ix)	–	–	1,684,400	4,000,450
Issued for cash on private placement (x)	–	–	424,000	1,007,000
Issued for cash on flow through private placement (x)	–	–	1,576,000	4,334,000
Rounding on conversion (ii)	14	–	–	–
Future taxes on flow through common shares	–	(3,362,000)	–	(1,673,215)
Issue costs, net of future taxes	–	(101,360)	–	(189,989)
Balance, end of year	33,104,316	51,568,073	5,364,440	8,242,356
Special warrants				
Balance, beginning of year	15,257,646	7,018,734	12,732,646	6,185,430
Exercise and conversion to common shares (ii)	(14,476,146)	(6,746,040)	–	–
Issued for cash on private placement (xi)	–	–	2,525,000	1,893,750
Future taxes on flow through special warrants	–	–		(948,509)
Issue costs, net of future taxes	–	–	–	(111,937)
Balance, end of year	781,500	272,694	15,257,646	7,018,734
Share capital, end of year		51,840,767		15,261,090
Subscription receipts				
Balance, beginning of year	–	–	–	–
Issued for cash on private placement (i)	43,412,262	32,559,197	–	–
Issued for cash on flow through private placement (i)	8,333,333	7,500,000		
Issue costs	–	(2,754,521)		
Exercise and deemed exercise into common shares (i)	(51,745,595)	(37,304,676)	–	–
Subscription receipts, end of year	–	–	–	–
Contributed surplus				
Balance, beginning of year	–	510,244	–	–
Non cash compensation expense (vii)	–	254,705	–	491,344
Reclassification to share capital on exercise of options	–	(11,500)		
Agents' option benefit	–	–	–	18,900
Contributed surplus, end of year	–	753,449	–	510,244

Share capital and per share amounts have been restated on a retroactive basis to reflect a 2.5 for 1 common share consolidation which occurred on August 12, 2004.

The non-cash compensation expense is comprised of the stock option benefit for all outstanding options, except for the year ended December 31, 2003 as more fully described in (vii).

Common Shares

(i) *Private Placement*

On June 15 and June 17, 2004, the Company issued a total of 1,111,112 flow through common shares at $2.25 per share in a private placement for gross proceeds of $2,500,000.

In accordance with the terms of the flow through common shares, and pursuant to certain provisions of the *Income Tax Act* (Canada), the Company has renounced, for income tax purposes, exploration and development expenditures to holders of its flow through common shares of $2,500,000.

Under the same private placement, the Company also issued, on June 15, June 17 and July 22, 2004, 43,412,262 subscription receipts at $0.75 per subscription receipt and 8,333,333 flow through subscription receipts at $0.90 per flow through subscription receipt and the gross proceeds were placed in escrow. Each subscription receipt entitled the holder to acquire 0.4 common shares without payment of additional consideration and one half of one warrant, each whole warrant entitling the holder to acquire 0.4 common shares at an exercise price of $2.375 until June 15, 2005. If the common shares or warrants issuable on exercise of the subscription receipts were subject to a restricted period or a hold period (other than in respect of sales by control persons) after November 30, 2004, the holders of subscription receipts would instead have been entitled to receive on exercise of the subscription receipts 0.44 common shares and one half of one warrant. Each flow through subscription receipt entitled the holder to acquire 0.4 flow through common shares without payment of additional consideration and was deemed exercised on closing of the acquisition of 1099017 Alberta Ltd. on August 12, 2004, as described in note 6, resulting in the issuance of 3,333,333 common shares.

On August 12, 2004, proceeds from the subscription receipts and flow through subscription receipts totaling $40,010,446 that had been placed in escrow were released to the Company on closing of the acquisition, net of issue costs of $2,754,521.

In accordance with the terms of the flow through subscription receipts, and pursuant to certain provisions of the *Income Tax Act* (Canada), the Company has renounced, for income tax purposes, exploration and development expenditures to holders of its flow through common shares of $7,500,000.

On October 15, 2004, the Company received a receipt for a final prospectus and the subscription receipts were therefore deemed exercised five business days later, on October 22, 2004. The common shares issued on the deemed exercise of the subscription receipts are not subject to a restricted period or a hold period (other than in respect of sales by control persons), and as such, the holders of subscription receipts received 0.4 common shares and one half of one warrant for each subscription receipt deemed to be exercised. A total of 17,364,905 common shares and 21,706,131 warrants were issued October 22, 2004, with each warrant entitling the holder to acquire 0.4 of a common share at an exercise price of $2.375 until June 15, 2005.

(ii) *Exercise of special warrants*

Pursuant to the receipt for a final prospectus on October 15, 2004 noted in (i), the common shares issuable on exercise of the special warrants outstanding were no longer subject to a restricted period or hold period under applicable securities laws in Canada (other than Quebec). During the year ended December 31, 2004, special warrantholders have exercised 14,476,146 special warrants in exchange for a total of 5,790,458 common shares.

(iii) *Stock exchange listing*

The Company applied and received approval for listing on the Toronto Stock Exchange and on November 23, 2004, the Company's common shares and common share warrants commenced trading on the TSX under the symbols CNH and CNH.WT respectively.

(iv) *Option exercise*

On November 3, 2004, 70,000 common shares were issued on exercise of stock options at an exercise price of $1.875 per common share. As a result, stock compensation expense of $11,500 previously recognized for these options has been reclassified from contributed surplus to common shares.

(v) *Brokers' warrant exercise*

During the month of December, 2004, a total of 40,560 common shares were issued pursuant to the exercise of brokers' warrants at an exercise price of $1.00 and 29,494 common shares were issued pursuant to the exercise of brokers' warrants at an exercise price of $1.875.

(vi) *Private Placement*

On February 13, 2003, the Company issued 140,000 flow through common shares to the President of the Company and 40,000 flow through common shares to the Chief Executive Officer of the Company at fair value of $2.375 per share.

In accordance with the terms of the flow through common shares, and pursuant to certain provisions of the *Income Tax Act* (Canada), the Company has renounced, for income tax purposes, exploration and development expenditures to holders of its flow through common shares of $427,500.

(vii) *Private Placement*

On February 13, 2003 and pursuant to the terms of an offer of employment, the Company issued 200,000 common shares at an issue price of $0.25 per common share to the President of the Company. The Company has recognized an expense of $325,000 related to the foregoing, based on the excess of the estimated fair value of the shares of $1.875 over the issue price of $0.25 per share, which is included in non-cash compensation expense in the year ended December 31, 2003. The balance of stock compensation expense is comprised of a stock option benefit.

(viii) *Private Placement*

Pursuant to an agreement dated July 7, 2003, the Company issued 100,000 common shares under a private placement on July 25, 2003 for cash consideration of $1.875 per common share.

(ix) *Private Placement*

On August 19, 2003, the Company issued 1,684,400 common shares at $2.375 per share in a private placement for gross proceeds of $4,000,450.

(x) *Private Placement*

On November 10, 2003, the Company issued 424,000 common shares at $2.375 and 1,576,000 flow through common shares at $2.75 in a private placement for gross proceeds of $5,341,000.

In accordance with the terms of the flow through common shares, and pursuant to certain provisions of the *Income Tax Act* (Canada), the Company has renounced in 2003, for income tax purposes, exploration and development expenditures to holders of its flow through common shares of $4,334,000.

Special Warrants

(xi) *Private Placement*

A total of 2,525,000 Special Warrants were issued on January 30, 2003 at $0.75 of which 149,000 (including those issued in the December, 2002 closing as noted in (xiii)) are outstanding. Each Special Warrant entitles the holder to acquire 0.4 of a common share of the Company at no additional cost on or after October 22, 2004, that being the date that was five business days following the date upon which a receipt for a final prospectus was obtained.

(xii) *Private Placement (closing dates of May 15th and 31st, 2002)*

A total of 7,500,000 Special Warrants were issued at $0.40 of which 132,500 are outstanding. Each Special Warrant entitles the holder to acquire 0.4 of a common share of the Company at no additional cost on or after October 22, 2004, that being the date that was five business days following the date upon which a receipt for a final prospectus was obtained.

(xiii) *Private Placement (closing dates of December 20th and 31st, 2002)*

A total of 1,474,668 Special Warrants and 2,457,978 Flow Through Special Warrants were issued at $0.75 and $0.95 respectively of which 149,000 (including those issued in the January, 2003 closing as noted in (xi)) are outstanding. Each Special Warrant entitles the holder to acquire 0.4 of a common share of the Company at no additional cost on or after October 22, 2004, that being the date that was five business days following the date upon which a receipt for a final prospectus was obtained.

In accordance with the terms of the Flow Through Special Warrants, and pursuant to certain provisions of the *Income Tax Act* (Canada), the Company has renounced in 2002, for income tax purposes, exploration and development expenditures to holders of its Flow Through Special Warrants of $2,335,079.

Agents' Options and Brokers' Warrants

On January 30, 2003, the Company issued 126,250 agents' options pursuant to a private placement of Special Warrants. The agents' options were deemed exercised on October 22, 2004, being five business days following the date upon which a receipt for a final prospectus was obtained, and the same number of brokers' warrants was issued for no additional consideration. The brokers' warrants entitle the holder to purchase 0.4 of a common share at a price of $1.875 until the earlier of twelve months from the date upon which a receipt for a final prospectus is obtained or two years from the relevant closing date of the Private Placement.

The estimated fair value of agents' options issued during the year ended December 31, 2003, was estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions: zero percent dividend yield, expected volatility of thirty percent, risk-free interest rate of 3.95 percent, and an expected life of four years. The estimated fair value of agents' options granted in the year ended December 31, 2003 was $18,900, which amount has been recognized in its entirety as share issue costs and contributed surplus.

Private Placement (closing dates of December 20th and 31st, 2002)

The Company had issued 70,983 agents' options on December 20, 2002 and 2,750 agents' options on December 31, 2002, on the respective closings of the Private Placement. The agents' options were deemed exercised on October 22, 2004, being five business days after the receipt for a final prospectus was obtained, and the same number of brokers' warrants was issued for no additional consideration. All the brokers' warrants were exercised on December 20, 2004 at an exercise price of $1.875 and 29,494 common shares were issued pursuant thereto.

Private Placement (closing dates of May 15th and 31st, 2002)

The Company issued 518,000 agents' options on May 15, 2002 and 232,000 agents' options on May 31, 2002, on the respective closings of the Private Placement. The agents' options were deemed exercised on October 22, 2004, being five business days after the receipt for a final prospectus was obtained, and the same number of brokers' warrants was issued for no additional consideration. The brokers' warrants entitle the holder to purchase 0.4 of a common share at a price of $1.00 until the earlier of twelve months from the date upon which a receipt for a final prospectus is obtained or two years from the relevant closing date of the Private Placement. On December 16, 2004, a total of 101,400 brokers' warrants were exercised at an exercise price of $1.00 and 40,560 common shares were issued pursuant thereto.

Per share amounts

Per share amounts have been calculated using the weighted average number of common shares and special warrants outstanding during the year of 20,054,494 [2003 - 8,495,673]. The diluted per share amounts are calculated assuming the exercise of outstanding, in the money options, resulting in a weighted average number of common shares of 22,068,795 [2003 - 9,289,040]. Per share calculations that are anti-dilutive are not presented.

Stock option plan

The Company has a stock option plan authorizing the grant of options to purchase shares to designated participants, being directors, officers, employees or consultants. Under the terms of the plan, the Company may grant options to purchase shares equal to a maximum of ten percent of the total issued and outstanding shares and special warrants of the Company. The aggregate number of options that may be granted to any one individual must not exceed five percent of the total issued and outstanding shares and special warrants. Options are granted at exercise prices equal to the estimated fair value of the shares at the date of grant and may not exceed a ten year term. The vesting for options granted occurs over a three year period, with one third of the number granted vesting on each of the first, second, and third anniversary dates of the grant unless otherwise specified by the Board of Directors at the time of grant.

The following is a continuity of stock options for which shares have been reserved:

	2004		2003	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
		$		$
Stock options outstanding, beginning of year	**658,000**	**1.89**	–	–
Granted	**1,087,000**	**1.87**	722,000	1.89
Exercised	**(70,000)**	**1.88**	–	–
Expired	**(40,000)**	**1.88**	(64,000)	1.88
Stock options outstanding, end of year	**1,635,000**	**1.88**	658,000	1.89

CINCH ENERGY CORP.

December 31, 2004 and 2003

Stock options outstanding at the end of the year are comprised of the following weighted average prices:

December 31, 2004		December 31, 2003	
Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	$		$
40,000	1.63	638,000	1.88
842,000	1.87	20,000	2.38
578,000	1.88	—	—
100,000	1.88	—	—
55,000	1.95	—	—
20,000	2.38	—	—
1,635,000	1.88	658,000	1.89

The options outstanding at December 31, 2004 have a weighted average remaining contractual life of 4.0 years [December 31, 2003 - 4.5 years]. As at December 31, 2004, a total of 332,667 were exercisable [December 31, 2003 - nil].

The fair value of stock options granted to employees, directors and consultants during the year ended December 31, 2004 and 2003, was estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions: dividend yield of zero percent [2003 - zero percent], expected volatility of 29.25 percent [2003 - 30 percent], risk-free interest rate of 3.69 percent [2003 - 3.84 percent], and an expected life of four years [2003 - four years]. Outstanding options granted during the year ended December 31, 2004 had an estimated weighted average fair value of $0.53 per option [December 31, 2003 - $0.55 per option], for a total estimated value of $558,451 [2003 - $363,900]. A total of $254,705 [2003 - $166,344] has been recognized as stock compensation expense and contributed surplus in the year ended December 31, 2004.

The non cash compensation expense is comprised of the stock option benefit for all outstanding options and is included in general and administrative expense in the statements of operations.

12. COMMITMENTS

The Company has entered into an operating lease for office premises expiring on March 14, 2008 which requires minimum monthly payments of $7,556 to August 31, 2005 and minimum monthly payments of $7,640 thereafter.

The Company has also entered into a capital lease obligation, as more fully described in note 8.

13. BASIS OF PRESENTATION

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

CORPORATE INFORMATION

BOARD OF DIRECTORS

John W. Elick[3]
Chief Executive Officer, Cinch Energy Corp.

George Ongyerth[2]
President, Cinch Energy Corp.

Sid W. Dykstra[2], [3]
President and Chief Executive Officer of OPTI Canada Inc.

William D. Robertson[1], [2], [4]
Director, Cinch Energy Corp.

Clarence K. Wagenaar[1], [3]
Managing Director of All Investments Ltd. and Hillcrest Investments Ltd.

Gerald M. Deyell, Q.C.[1], [4]
Partner, Blake, Cassels & Graydon LLP

(1) Member of the Audit Committee
(2) Member of the Reserves Committee
(3) Member of the Compensation Committee
(4) Member of the Governance Committee

OFFICERS

John W. Elick
Chief Executive Officer

George Ongyerth
President

Brian J. McBeath
Vice President, Exploration

Denise A. Ramage
Chief Financial Officer

Brent F. Gess
Vice President, Engineering

C. Steven Cohen
Secretary

Registrar and Transfer Agent

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